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# RAPID-AMERICAN CORPORATION · ANNUAL REPORT 1965

RAPID-AMERICAN

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## HIGHLIGHTS

| | 1965 | 1964 |
|---|---|---|
| SALES | $519,483,000 | $547,775,000 |
| NET EARNINGS | 3,065,000 | 1,949,000 |
| EARNINGS PER SHARE | 1.46 | .93 |

*The Annual Meeting of the Shareholders of Rapid-American Corporation will be held in the Meeting Room of the Fifth-Third Union Trust Company, 4th and Walnut Streets, Cincinnati, Ohio, on Wednesday, May 25, 1966 at 1:00 P.M.*

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# TO THE SHAREHOLDERS:

The year 1965 was a momentous one for Rapid-American, highlighted by the acquisition of Joseph H. Cohen & Sons, believed to be the country's largest manufacturer of men's tailored apparel and a 16 per cent increase in the net income of our retail subsidiary, McCrory Corporation.

Our results for the year ended January 31, 1966 include the Cohen Division from date of acquisition, December 1, 1965:

> Net income rose to $3,065,000 from $1,949,000 in 1964, a gain of 57 per cent. Sales totaled $519,483,000, compared to $547,775,000 in 1964. The lower 1965 sales resulted primarily from the disposition of certain unprofitable units of McCrory Corporation.
>
> Earnings per share increased to $1.46 from the $.93 reported a year ago.

### ACQUISITIONS

Rapid purchased the business and certain operating assets of Joseph H. Cohen & Sons for $21,000,000. This transaction was financed by: (1) $4,000,000 of short-term bank borrowing which was subsequently repaid without incurring new debt; (2) $9,000,000 in bank loans (with six equal semi-annual payments beginning January 31, 1969); (3) $8,000,000 in notes with varying maturities. Pending shareholder approval, $3,600,000 of the latter notes will be exchanged for 240,000 shares of $.75 convertible preferred stock ($1.00 par value).

Founded in 1914, Joseph H. Cohen's history reflects consistent growth in sales and profits. In fiscal 1965, ended November 30, 1965, Cohen earned $4,711,000 on sales of $40,424,000, compared to earnings of $3,315,000 on sales of $35,361,000 the preceding year.

Joseph H. Cohen currently produces almost 1,600,000 men's suits and sports coats annually at its five plants in Philadelphia, Pennsylvania. A strong, experienced management directs all phases of the company's operations. Steps have been taken to assure the continuity of this management by granting long-term employment contracts to key personnel, issuance of stock options and assumption of the existing deferred profit-sharing plan.

On January 27, 1966, the directors of Rapid-American and Hanover Equities Corporation approved an agreement providing for the merger of Hanover into Rapid, subject to approval by the shareholders of both companies.

Our primary objective in connection with the Hanover merger is to broaden the equity base of Rapid. If approved, 610,932 shares of $.75 convertible preferred stock ($1.00 par value) will be issued for Hanover. The latter, in addition to its cash resources of approximately $2,000,000, has five real estate properties and a $2,000,000 investment in the North Shore Bank of Chicago (representing 28 per cent of its outstanding common stock). Hanover's program of selling off its remaining properties will be continued.

### McCRORY CORPORATION

Our 51 per cent-owned retail subsidiary achieved new highs in net income and cash generation in 1965.

> Net income climbed to a record of $10,063,000, a 16 per cent increase over the $8,666,000 earned in 1964.
>
> Cash generated (net income, depreciation, amortization, deferred taxes and the net proceeds from the sale of Lerner Shops' stock) totaled $42,000,000, equal to $8.00 per common share, compared to $22,000,000 or $4.00 per share in 1964.

Each of the McCrory operating units improved upon its 1964 results. McCrory-McLellan-Green, the variety division, under the momentum developed by its new leadership, increased its earnings by more than 20 per cent. OTASCO-Economy Auto Stores again set records in sales and profits in 1965—a performance maintained since it became part of McCrory in 1960. Lerner Shops continued to increase its profits. Since 1961, when Lerner was acquired, its profits have grown at an annual rate of better than 10 per cent.

As of this writing, McCrory owns more than 60 per cent of the voting securities of S. Klein Department Stores, Inc. An exchange offer underway expires April 29, 1966. S. Klein, with sales of approximately $200,000,000 annually, will now be operated as a McCrory subsidiary. A team of McCrory executives presently is involved in the rebuilding of the Klein operation. S. Klein, a pioneer in the promotional department store field, operates 10 stores in New York, northern New Jersey, Philadelphia and metropolitan Washington, D. C. areas.

Rapid has an important stake in Glen Alden Corporation's search for sizeable acquisitions through McCrory's 49.7 per cent interest in this company. In early 1966, Glen Alden acquired approximately 283,000 shares (28 per cent of the outstanding common stock) of Philip Carey Manufacturing Co., a manufacturer of building materials. Glen Alden has substantial cash available for further acquisitions and diversification.

During the year, McCrory reduced its ownership of Lerner Stores Corporation through a dividend distribution and subsequent offering of Lerner common to McCrory common stockholders. Rapid realized approximately $4,000,000 from the sale of Lerner common stock and rights, which was added to its internally generated cash and subsequently was used to pay off short-term borrowing. Lerner's sales and earnings will continue to be consolidated.

## OUTLOOK

Rapid's future is bright. Our company now has two major sources of profit and growth: through McCrory, in the retail field, and Joseph H. Cohen & Sons, in men's apparel. The combined prospects of both of these operations promise substantial rewards for Rapid-American shareholders in the coming years.

Since 1960, when Rapid acquired its interest in McCrory Corporation, our energies have been spent in building management, in improving existing operations and in establishing a sound foundation. The McCrory organization has matured

*M. Riklis, Chairman*

and is now ready to initiate a major store expansion program. In 1966, 81 new stores will be opened.

We intend to obtain a larger share of an expanding retail market with our four-pronged attack in the variety, automotive and battery, women's apparel and promotional department store fields.

In our Cohen division, we shall continue the same operating policies that have produced consistent growth over a period of many years—offering retailers the best quality and service at prices that only an operation of such scope can offer.

Rapid will derive the full impact of the Cohen earnings in 1966. Had we owned Cohen for the full year of 1965, this division would have contributed a minimum of $3,000,000, or about $1.50 per share, to Rapid after deducting interest expenses involved in financing its acquisition.

I deeply appreciate the contributions made by our officers, directors and employees in 1965. It gives me great pleasure to welcome the highly capable Cohen organization to our company. In closing, I would also like to thank our major lending institutions for their advice and confidence in our future.

Sincerely,

M. Riklis
Chairman of the Board and President

April 20, 1966

Our recently acquired Joseph H. Cohen & Sons division occupies a unique place in the men's apparel industry. The company is believed to be the largest producer of tailored apparel in the United States; its output is sold almost entirely under the labels of its retail accounts. Cohen accounts for approximately 7 per cent of the domestic suit output. With its 4,000 employees, more than 825,000 square feet of production and warehouse facilities, Cohen is a giant in its industry.

In 1965, Joseph H. Cohen & Sons enjoyed its best year since the business was founded in 1914. Pretax profits were $4,711,000, up 42 per cent from the preceding year.

Operations of Cohen are conducted by four divisions, each producing suits in different price categories. Cohen's executive office, including the principal sales office, is located in New York City and regional sales offices are maintained in Boston, Chicago, Dallas, Los Angeles, Pittsburgh, St. Louis and Seattle.

*Isidore M. Cohen (left) and Wilfred P. Cohen (right) watch M. Riklis, Rapid-American chairman, sign papers for purchase of Joseph H. Cohen & Sons.*

## MANUFACTURING

Cohen's manufacturing complex, located in Philadelphia, Pennsylvania, consists of four plants (631,000 square feet) and a new warehouse distribution center (194,000 square feet). Cohen realizes substantial efficiencies and benefits and quality control through its fully integrated production facilities. All of the sponging, cutting, sewing and pressing operations involved in making a suit are performed internally. In addition, the division makes many of the suit components, such as shoulder pads, canvasses and sleeve heads, which are generally purchased by other apparel manufacturers.

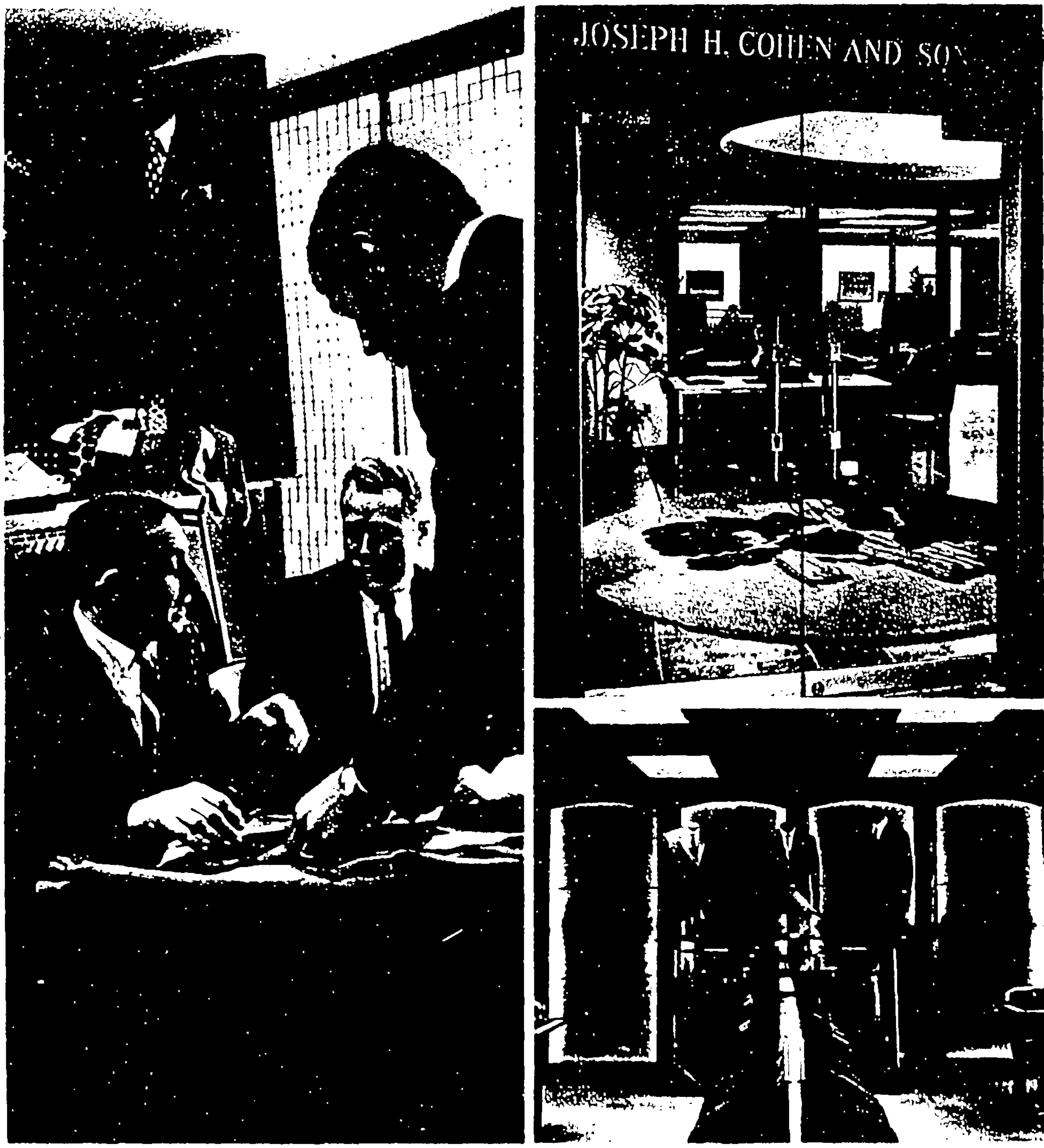
Cohen successfully combines mass-production techniques with high standards of workmanship. By utilizing advanced scheduling techniques, programmed by its electronic data processing equipment, Cohen maintains a steady flow of production throughout the year — a critical determinant of profits in mass-produced apparel.

In the past year, Cohen's manufacturing facilities operated at full capacity. Plans are underway which should raise capacity by 15 per cent before the end of the current year.

## MARKETING

Now in its 52nd year of operation, Joseph H. Cohen & Sons is participating in the unprecedented interest in men toward their appearance. Not only do men want a four-or-more suit wardrobe today, compared to the two suits which were considered adequate in the past, but they are becoming more style-conscious and adventurous in selecting their apparel.

*(Left) Employees at Cohen manufacturing facility in Philadelphia arrange suit patterns prior to cutting. (right top) Incoming fabrics get careful scrutiny by quality control officer. (right center) Skilled machine operator sews customer label on completed suit. (lower right) Operator die-cuts shoulder padding material.*




*(Left) Cohen marketing executives evidence youthful energy of Cohen organization. (top right) Main entrance to Cohen New York executive offices. (lower right) One of numerous showrooms at New York facility.*

Responding to this demand, Joseph H. Cohen & Sons markets four major lines of suits, ranging in retail price from $40, for its student line, to $90 for its luxury line. The two higher priced lines are sold by one sales force and the two less expensive lines by a second sales group.

The company is highly fashion conscious. Because it is geared to mass production, however, it avoids fashion extremes and short-lived fads. Within each of its four price categories a diversity of styles are offered to satisfy a wide range of tastes, including such styles as "natural shoulder," "highly fashioned," "long wear" and the currently popular "mod" styles. All company products, regardless of price, meet rigid standards of wearing quality, fit and style.

Sales efforts are geared to aid its retailers with their own marketing problems. The division's sales staff works in close liaison with its retail customers, including chain stores, department stores and independents. Sales executives help retailers to anticipate style trends, analyze inventory situations and provide a number of sales aids from cooperative advertising to point-of-sales materials. Joseph H. Cohen & Sons is able to offer its retailers a substantial price advantage because of its concentrated purchasing power and highly efficient integrated manufacturing operation. Through its retailers, Cohen has representation in every major marketing area in the United States. In the West Coast and Midwest regions, the division has a particularly strong market penetration.

## MANAGEMENT

We are particularly fortunate to have the talented Cohen management associated with us. The Cohen division is led by Isidore M. Cohen and Wilfred P. Cohen, who have been with the company all of their business life.

They can take pride in the development of a cadre of key executives between 30-44 years of age who have served the organization in positions of responsibility for many years.

*Fashion excellence is part of the Joseph H. Cohen reputation: this worsted and silk suit is from their top priced Westbury line.*

**THIS IS McCRORY:** McCrory Corporation is one of our nation's largest non-food retailing organizations, with 1,337 stores in operation coast-to-coast and in Puerto Rico, and with combined retail sales in excess of $700,000,000 (including S. Klein). Its retail interests are concentrated in (1) variety stores; (2)automotive accessories stores; (3) women's and children's apparel stores; and (4) promotional department stores.

Retail operations are conducted through two major divisions and two subsidiaries which function largely on an autonomous basis. The Corporation's Home Office retains the responsibility for such activities as finance and audit, long-range planning, investment supervision, legal matters, insurance and pensions.

McCrory is now embarked upon a major store expansion program, having given emphasis in recent years to strengthening the management and supervisory structure at all levels, improving efficiency of existing stores and closing unprofitable units.

Its operations are:

McCrory-McLellan-Green—one of the country's largest and oldest variety store chains. It operates 566 stores in 36 states. Its merchandise includes apparel and accessories; toys, games and books; dry goods and domestics; hardware and home furnishings; and stationery.

OTASCO-Economy Auto Stores Division—with 142 company-owned stores and 277 franchised stores in the south and southwest, selling auto accessories and parts, appliances, sporting goods and housewares.

Lerner Shops—the country's largest women's and children's apparel chain, with 342 stores coast-to-coast. McCrory continues to own the majority of Lerner's common stock.

S. Klein Department Stores, Inc.—the pioneer in the promotion department store field. It operates 10 stores in the New York, northern New Jersey, Philadelphia and metropolitan Washington, D. C. areas. Klein will now operate as a subsidiary of McCrory as a result of the acquisition by McCrory of more than 60 per cent of Klein voting securities.

In addition to the above, McCrory Corporation owns 49.7 per cent of the common stock of the Glen Alden Corporation.

Glen Alden is a diversified company consisting of RKO Theatres, located mainly in the east; Opp and Micolas Mills, Alabama manufacturers of greige cotton goods; and Swift Manufacturing Company, large Georgia fabric manufacturers.

Glen Alden owns approximately 28 per cent of the common stock of Philip Carey, manufacturers of products for building and industry. Glen Alden also has substantial cash available for further acquisitions and diversification.

## McCRORY-McLELLAN-GREEN

In two short years, under its new leadership, McCrory-McLellan-Green (MMG) has become one of the most forward looking chains in the entire retail industry. In 1965, MMG's pre-tax profits increased by more than 20 per cent.

Last year, MMG began a new store expansion program, opening seven stores in suburban shopping centers. This program will be accelerated in 1966.

The division's model store program, established two years ago, came into its own last year. Model stores have been established in each of the division's 47 districts. These stores have been a study and testing arena for new retail techniques. The model stores have proven extremely helpful in improving both new store and existing store merchandise selection, display techniques, promotional methods and floor layout.

MMG's program of regional decentralization, instituted in 1964, was enhanced last year. Two new regional vice presidents were appointed. A vice president is now in charge of each of the six regions and has a full staff that includes a merchandising manager, sales manager, personnel manager and controller. This has aided the various regions in responding to local marketing problems more quickly and efficiently.

Various MMG centralized functions also have been strengthened. During the year, new officer-level appointments were made for national store merchandise manager, head buyer, field controller, headquarters controller and manager of distribution and construction. The central buying group was strengthened with a number of new buyers appointed both from within and outside the organization. The efficiency of the York Distribution Center has increased to the point where it now is able to ship 40 per cent more merchandise to the stores than it was a year ago.

## OTASCO-ECONOMY AUTO STORES

In 1965, this operation recorded its highest sales and profit in its 48 year history.

Alert purchasing and hard hitting promotions helped the division make the most of its growing markets.

Uninterrupted expansion has been a characteristic feature of the automotive aftermarket, which includes tires, batteries, replacement parts and accessories. Ten years ago there were 52,000,000 registered passenger vehicles; today there are 75,000,000, and it is estimated that in ten years there will be 97,000,000.

In order to serve this growing market, OTASCO has scheduled continued expansion of its facilities. The 1966 expansion will highlight larger and more modern service facilities with the latest technical equipment for diagnostic auto testing.

## LERNER SHOPS

Sales and earnings of Lerner Shops, the largest chain of women's and children's apparel stores in the country, set record highs in 1965.

Lerner plays an important fashion role, bringing to the average American woman and

her children the most attractively styled quality clothes at prices she can afford. Because of its size, the company has been able to concentrate the impact of its massive centralized buying power, passing on advantages of price and quality to its customers. Its large, specialized buying staff makes it possible for customers all over the country to participate in the latest trends of New York, Hollywood, Miami, Rome and Paris.

Supplementing Lerner's fashion strength is a solid foundation of modern mass-marketing technology and experience. The company is divided into five regions, each with its own distribution center, general manager and merchandising and store supervision staffs to maintain a close relationship with its stores and local marketing trends.

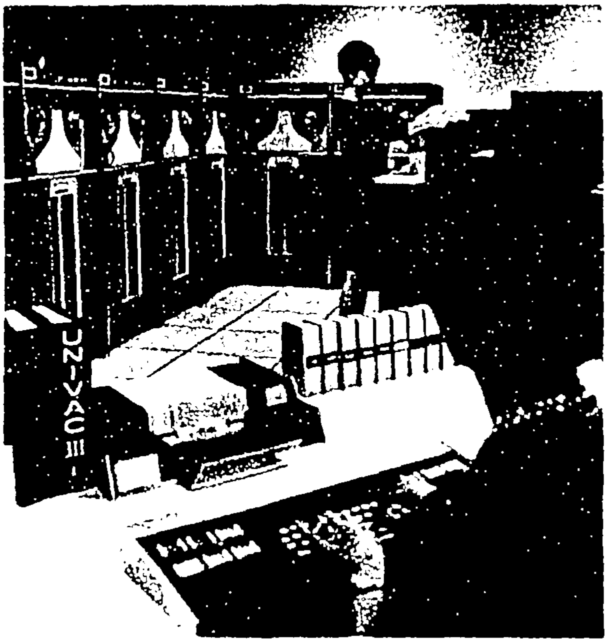
## S. KLEIN DEPARTMENT STORES, INC.

S. Klein Department Stores, Inc., now more than 60 per cent owned by McCrory, did not operate satisfactorily in 1965.

Samuel Neaman was elected Chairman and Chief Executive Officer in September 1965. In January 1966, Jack Schwadron, former President of E. J. Korvette, was elected President of S. Klein.

A broad rebuilding program currently is underway, giving emphasis to improving the fashion segment of the business and establishing more efficient financial controls and operating procedures.

The two stores opened under Klein management in 1966 are operating successfully.




*(Top) Computer installation at Lerner Shops typifies broad electronic data processing capability present throughout Rapid-American's operating units. (lower) McCrory-McLellan-Green customers examine merchandise.*

## STATEMENT OF CONSOLIDATED INCOME

FOR THE YEAR ENDED JANUARY 31, 1966

| | | |
|---|---|---|
| NET SALES, principally merchandise | | $519,483,430 |
| OTHER INCOME, net (Notes 2 and 3) | | 3,494,094 |
| | | 522,977,524 |
| COST OF GOODS SOLD, BUYING AND OCCUPANCY EXPENSES, NET OF SERVICE CHARGE INCOME (Exclusive of depreciation and amortization) | | 369,358,631 |
| | | 153,618,893 |
| DEDUCT: | | |
| Selling, general and administrative expenses (exclusive of depreciation and amortization) | $120,972,079 | |
| Interest charges | 10,326,864 | |
| Depreciation and amortization | 8,121,513 | 139,420,456 |
| INCOME BEFORE FEDERAL INCOME TAXES AND EQUITY APPLICABLE TO SHARES OF SUBSIDIARIES IN HANDS OF THE PUBLIC | | 14,198,437 |
| PROVISION FOR DEFERRED FEDERAL INCOME TAXES (NOTE 7) | | 6,180,000 |
| INCOME BEFORE EQUITY APPLICABLE TO SHARES OF SUBSIDIARIES IN HANDS OF THE PUBLIC | | 8,018,437 |
| EQUITY APPLICABLE TO SHARES OF SUBSIDIARIES IN HANDS OF THE PUBLIC | | 4,953,077 |
| NET INCOME APPLICABLE TO SHAREHOLDERS OF RAPID-AMERICAN CORPORATION (NOTE 12) | | $ 3,065,360 |

*See notes to financial statements.*

RAPID-AMERICAN
CONSOLIDATED

## ASSETS

| | | |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash | | $ 17,582,890 |
| Receivables less allowances of $1,730,175 (Note 2) | | 6,084,041 |
| Inventories, at lower of cost or market | | 92,597,907 |
| Prepaid expenses | | 2,237,339 |
| TOTAL CURRENT ASSETS | | 118,502,177 |
| INVESTMENTS IN AND ADVANCES TO: | | |
| Glen Alden Corporation, at cost (Note 3) | $ 34,267,491 | |
| S. Klein Department Stores, Inc., at cost (Note 3) | 3,419,178 | |
| McCrory Credit Corporation (Notes 1 and 2) | 6,305,793 | 43,992,462 |
| PROPERTY AND EQUIPMENT, at cost | 151,958,609 | |
| Less accumulated depreciation and amortization | 84,207,036 | 67,751,573 |
| OTHER ASSETS: | | |
| Excess of cost of investments over related equities (Note 4) | 20,497,340 | |
| Unamortized debt expense | 6,890,495 | |
| Mortgages and sundry (Note 5) | 5,636,769 | |
| Unamortized goodwill and deferred charges | 2,593,116 | 35,617,720 |
| TOTAL | | $265,863,932 |

*See notes to financial statements.*

## LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Current maturities of long-term debt (Note 6) | | $ 8,873,292 |
| Accounts payable | | 20,682,001 |
| Notes payable | | 5,088,390 |
| Accrued expenses and sundry | | 20,582,373 |
| Accrued Federal income taxes | | 6,166,772 |
| TOTAL CURRENT LIABILITIES | | 61,392,828 |
| LONG-TERM DEBT, less current maturities (Note 6) | | 102,774,462 |
| DEFERRED FEDERAL INCOME TAXES AND OTHER (Notes 7 and 8) | | 15,888,325 |
| MINORITY INTEREST IN SUBSIDIARY COMPANIES | | 75,946,659 |
| SHAREHOLDERS' EQUITY (Note 13): | | |
| Common stock—authorized 10,000,000 shares, $1 par value per share; issued 2,136,243 shares; less stock in treasury 34,536 shares; outstanding 2,101,707 shares (Notes 6 and 10) | $ 2,101,707 | |
| Capital surplus | 15,376,953 | |
| Earned surplus (deficit) (Notes 6 and 13) | (5,212,756) | |
| | 12,265,904 | |
| Less equity in subsidiary's cost of its treasury stock | 2,404,246 | 9,861,658 |
| TOTAL | | $265,863,932 |

*See notes to financial statements.*

## STATEMENT OF SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED JANUARY 31, 1966

| | Outstanding Common Stock | Capital Surplus | Earned Surplus (Deficit) | Equity in Subsidiary's Cost of its Treasury Stock |
|---|---|---|---|---|
| BALANCE, FEBRUARY 1, 1965.. | $2,101,707 | $14,255,307 | $(6,935,147) | $( 911,430) |
| ADD (DEDUCT): | | | | |
| Net income for the year.... | | | 3,065,360 | |
| Gain on sale of 266,127 shares of common stock and 2,661,268 rights to purchase common stock of Lerner Stores Corporation (Note 4) .. | | | 1,724,625 | |
| Equity in certain transactions of subsidiaries: | | | | |
| Provision for estimated losses principally in connection with the closing of certain Lanes Department Stores, net of estimated Federal income tax benefit (Note 8).... | | | (1,289,225) | |
| Gain on sale of common stock of Lerner Stores Corporation (Note 4).................. | | | 113,164 | |
| Other ...................... | | 1,121,646 | (1,891,533) | (1,492,816) |
| BALANCE, JANUARY 31, 1966.. | $2,101,707 | $15,376,953 | $(5,212,756) | $(2,404,246) |

*See notes to financial statements.*

(1) *Principles of consolidation:*

The accompanying consolidated financial statements as of January 31, 1966, reflect the consolidation of Rapid-American Corporation and its subsidiary McCrory Corporation (51.2% owned by Rapid at such date). The McCrory consolidated financial statements reflect the consolidation of Lerner Stores Corporation (majority-owned by McCrory) and all wholly-owned subsidiaries except McCrory Credit Corporation.

(2) **McCrory Credit Corporation and equity in instalment accounts sold:**

Rapid and its affiliates have financing agreements with McCrory Credit Corporation under which certain customers' accounts receivable created each month are assigned to McCrory Credit Corporation. The latter remits 90% of the amount of accounts assigned, the remaining 10% representing the companies' equity therein. The companies accept reassignment of any accounts in default, as defined. Rapid's equity in assigned accounts receivable (the uncollected balances of which amount to $34,960,000 at January 31, 1966) is included in receivables in the consolidated balance sheet. Collections in January 1966 (payable to McCrory Credit Corporation in February 1966) from assigned customers' accounts (net of 10% equity) amounting to $10,375,000 have been deducted from receivables in the consolidated balance sheet.

The investment in McCrory Credit Corporation is carried at McCrory's equity in the capital and undistributed earnings as shown by the audited financial statement of the subsidiary at January 31, 1966 summarized below:

| | | |
|---|---|---|
| Accounts receivables, less unearned discount | $34,507,053 | |
| Other assets, less other liabilities | 3,798,740 | $38,305,793 |
| Notes payable to banks | 30,000,000 | |
| Notes payable to McCrory Corporation and subsidiaries ($2,000,000 current) | 6,000,000 | 36,000,000 |
| McCrory's equity | | $ 2,305,793 |

Net income of McCrory Credit Corporation for the year ended January 31, 1966 of $387,265 is included in other income in the accompanying statement of consolidated income.

(3) **Investments:**

During 1964 McCrory acquired 2,388,230 common shares of Glen Alden Corporation for cash and notes payable. These shares represent 49.7% of the total outstanding at January 31, 1966 and had a market quotation value of $29,554,350 at that date. McCrory's equity in the net assets of Glen Alden based on its financial statements as of December 31, 1965 was approximately equal to the cost of the investment. Dividends received from Glen Alden for the year ended January 31, 1966 amounting to $1,671,761 are included in other income in the accompanying statement of consolidated income.

During 1965 McCrory acquired 225,518 common shares of S. Klein Department Stores, Inc. for cash. These shares represent approximately 19% of the total outstanding at January 31, 1966 and had a market quotation value of $2,593,457 at that date. On March 18, 1966 McCrory offered $9,000,000 of its 5% Junior Sinking Fund Subordinated Debentures, due July 15, 1981, and 900,000 Common Stock Purchase Warrants in exchange for common stock or convertible debentures of Klein. To April 11, 1966, initial expiration date of offer, McCrory had accepted tenders of approximately 516,000 shares of common stock and $1,535,000 principal amount of 5¼% convertible debentures of Klein and on that date extended its offer to April 29, 1966. At April 11, 1966 McCrory owned approximately 61% of the outstanding Klein common.

(4) **Excess of cost of investments over related equities:**

At January 31, 1966 the aggregate cost of investments exceeded equity in underlying net assets at dates of acquisition as follows:

| | |
|---|---|
| Common stock of McCrory Corporation | $ 1,549,984 |
| Common stock of Lerner Stores Corporation (a) | 8,632,938 |
| Operating assets of Joseph H. Cohen & Sons (b) | 10,314,418 |
| Total | $20,497,340 |

(a) Prior to January 3, 1966 McCrory owned approximately 99% of the common stock of Lerner Stores Corporation; following distribution of 524,923 shares to McCrory stockholders on that date and sale of 1,974,088 shares in a rights offering to McCrory holders of record on January 18, 1966, McCrory held at January 31, 1966 a majority (2,555,457 shares) of Lerner common stock.

(b) On December 1, 1965 Rapid acquired the net operating assets and business of Joseph H. Cohen & Sons, Inc. The purchase price of $21,000,000 was financed principally through the issuance of notes. During the seven years ending January 31, 1973 Rapid is obligated to pay the sellers 20% of the amount by which the annual income, as defined, of its Joseph H. Cohen & Sons Division exceeds $4,000,000. Such division had net sales of $5,844,000 and net income of $574,000 for the two months ended January 31, 1966 included in the accompanying financial statements.

The excess purchase costs have been recognized by the managements of Rapid and McCrory as being similar in nature to intangibles which have not declined in value since acquisition. Accordingly, at dates of acquisition, the managements of Rapid and McCrory adopted the policy of not amortizing these excess purchase costs so long as there is no recognized diminution in value of the related investments.

(5) **Mortgages and sundry:**

Under certain circumstances receivables aggregating $800,000, arising from the sale of certain assets, may be settled by the payment to Rapid of 80,000 shares of its common stock.

(6) **Long-term debt:**

Long-term debt at January 31, 1966, including maturities due within one year, consisted of the following:

| | Total | Current Maturities | Long-Term Debt |
|---|---|---|---|
| 7% sinking fund subordinated debentures, due November 15, 1967, less debentures in treasury $120 (a) | $ 2,250,584 | | $ 2,250,584 |
| 5¼% convertible subordinated debentures, due January 1, 1977, less debentures in treasury $500,000 (b) | 12,699,940 | | 12,699,940 |
| 5½% sinking fund subordinated debentures, due 1976 (c) | 36,040,960 | | 36,040,960 |
| 5%-6% notes, due 1966 to 1976 (d) | 36,575,000 | $2,507,370 | 34,067,630 |
| 5.235% subordinated notes, due in equal annual instalments to 1970 | 8,931,422 | 1,786,284 | 7,145,138 |
| 5% junior subordinated notes, maturing serially from April 1, 1965 to April 1, 1970 | 10,149,978 | 3,582,345 | 6,567,633 |
| 3% sinking fund debentures, due July 1, 1967 (e) | 2,775,000 | 175,000 | 2,600,000 |
| Sundry, principally mortgages | 2,224,870 | 822,293 | 1,402,577 |
| Total | $111,647,754 | $8,873,292 | $102,774,462 |

(a) Exclusive of $1,307,616 exchanged and cancelled, a portion of which will be used to satisfy the 1966 sinking fund payment

(b) The issued debentures are convertible into common stock of Rapid at $25.08 principal amount of debentures for each share of common stock, subject to anti-dilution provisions, and are callable upon notice at principal amount with interest to redemption date. Of these debentures, $250,000 principal amount is subject to change under certain circumstances

(c) Exclusive of $831,104 redeemed and cancelled which is available for 1968 sinking fund payment. Sinking fund requirements in each year are as follows: 1968 through 1971—$2,048,448; 1972 through 1976—$3,277,517, with a final payment of $12,290,687 due on August 15, 1976.

(d) These notes are collateralized by the pledge of 2,661,268 shares of McCrory Corporation common stock, representing Rapid's investment in McCrory common stock at January 31, 1966 (51.2% of the outstanding common stock of McCrory Corporation). The acquisition cost of these shares to Rapid was $46,453,938; such shares are carried on Rapid's books at $41,547,079, representing Rapid's portion of McCrory common stock equity, and had a market quotation value of $49,233,458 at January 31, 1966. Cash dividends received by Rapid from McCrory amounted to $3,193,522 for the year.

(e) Exclusive of $425,000 in treasury. Sinking fund requirement is $2,600,000 at maturity.

The aggregate of long-term debt maturing during the five years ended January 31, 1971 is approximately as follows: 1966, $8,873,000 (included in current liabilities); 1967, $13,775,000; 1968, $15,778,000; 1969, $9,090,000; 1970, $8,470,000.

Agreements covering certain indebtedness of Rapid contain covenants concerning working capital position, additional indebtedness, limitations on the declaration and payment of dividends, restrictions on transactions in capital stock, etc. At January 31, 1966, there was no surplus available for the payment of dividends.

Interest charges incurred by Rapid amounted to $2,614,516 for the year ended January 31, 1966.

### (7) Federal income taxes:

The provision for Federal income taxes in the accompanying consolidated statement of income is applicable in its entirety to McCrory and its subsidiaries. Such provision is based upon McCrory's filing a consolidated Federal income tax return and has been reduced by McCrory's carry-forward consolidated operating losses. McCrory's consolidated tax return for the year ended January 31, 1965 showed no tax due and it is expected that the current year return will also show no tax due. At January 31, 1966 McCrory (including wholly-owned subsidiaries) has an unused investment tax credit of approximately $1,000,000.

For Federal income tax purposes McCrory and its subsidiaries utilize accelerated methods of computing depreciation and the instalment method of reporting certain sales. The use of these methods has resulted in tax deferrals which have been charged against income and credited to deferred Federal income taxes.

At January 31, 1966 deferred Federal income taxes of $3,850,000 relating to instalment accounts receivable are included in current liabilities.

### (8) Reserve for the closing or sale of loss stores:

During the year ended January 31, 1965 McCrory's Board of Directors established a reserve for losses principally inherent, although not yet realized, in planned closing or sale of loss stores and discontinuance of credit service at certain stores. During the current year McCrory provided and added to the reserve the amount of $2,500,000, net of estimated Federal tax benefit ($2,300,000), for estimated losses principally in connection with the closing of certain Lanes Department Stores. Rapid's equity in such charge is $1,289,225. In the year ended January 31, 1966, charges totaling $2,774,451, net of Federal income taxes, were made to this reserve.

### (9) McCrory preferred and preference stock and warrants:

At January 31, 1966, there were 424,869 shares of McCrory common stock reserved for the conversion of McCrory preferred and preference stock.

In addition, at January 31, 1966, 2,664,257 McCrory common stock purchase warrants were outstanding and 900,000 warrants were authorized for issuance under the Klein exchange offer covered elsewhere herein.

### (10) Common stock:

A qualified stock option plan adopted by the Board of Directors of Rapid on August 27, 1964, amended on March 24, 1965 and further amended on November 1, 1965 (subject to shareholders' approval) authorized the grant to officers, other executives and key employees of options to purchase 200,000 shares of common stock at 100% of the fair market value on the dates of grant.

During the year ended January 31, 1966 options were granted and became exercisable as follows:

| Option price per share | Number of shares: Options granted | Options which became exercisable |
|---|---|---|
| $10.125 | 63,200 | 15,800 |
| 11.75 | 51,700 | — |
| Total | 114,900 | 15,800 |

On January 31, 1966 85,200 shares were available for option grant. There were no options exercised during the year ended January 31, 1966. During such year an option to purchase 100 shares was cancelled and as of January 31, 1966 options to purchase 114,800 shares were outstanding.

At January 31, 1966, warrants entitling their holders to purchase 775,000 shares of Rapid's common stock were outstanding as follows:

| Expiration Date | Exercise Price | Number of Warrants |
|---|---|---|
| November 4, 1966 (a and c) | $10 | 300,000 |
| January 2, 1968 | 5 | 300,000 |
| December 31, 1970 (b and c) | 10 | 75,000 |
| June 1, 1976 | 5 | 100,000 |
| Total | | 775,000 |

(a) These warrants will be cancelled upon the effectiveness of the proposed merger referred to in Note 13.

(b) Not exercisable prior to November 4, 1967.

(c) Issued in connection with the acquisition of Joseph H. Cohen & Sons.

The terms of these warrants are subject to adjustments under certain circumstances.

Shares of McCrory's common stock reserved for issuance under stock option and employee stock purchase plans are tabulated below:

| | 1960 and 1961 plans | 1964 plan | Employee stock purchase plans |
|---|---|---|---|
| Option price range | $11.9135-$22.80 | $13.125-$20.125 | $10.63-$14.24 |
| Outstanding February 1, 1965 | 490,700 | 388,100 | 14,533 |
| Transactions during year ended January 31, 1966: | | | |
| Granted | | 151,100 | |
| Exercised | (292,300) | (122,314) | (11,613) |
| Cancelled, etc. | (73,750) | (750) | (91) |
| Outstanding January 31, 1966 | 124,650 | 416,136 | 2,829 |
| At January 31, 1966: | | | |
| Exercisable | 42,850 | 85,373 | 2,829 |
| Available for grant | None | 211,550 | None |

During the year ended January 31, 1966 options for 426,227 shares of McCrory common stock were exercised at an aggregate option price of $5,424,000.

### (11) Pension plans:

McCrory has a noncontributory retirement plan which covers eligible employees of the McCrory-McLellan-Green Stores Division, the cost of which will be met, as required, by periodic contributions to the trust fund. The amounts accumulated in the trust fund in respect of the McCrory-McLellan-Green plan exceed the actuarial liability as computed by the consulting actuary. For this reason, no provision for costs under this plan was reflected in the statements of consolidated income subsequent to 1960. Contributions of $1,200,000 made under other noncontributory retirement and profit sharing plans, principally for employees of Oklahoma Tire and Supply and Lerner Stores Corporation, paid or accrued during the year, have been reflected in the accompanying statement of consolidated income.

**(12) Net income and earned surplus (deficit):**

The $1,724,625 gain on the sale of 266,127 shares of common stock and 2,661,268 rights to purchase common stock of Lerner Stores Corporation included in the accompanying statement of shareholders' equity is set forth as a special item following net income in reports filed with the Securities and Exchange Commission. Rapid's equity in the addition to the reserve for the closing or sale of loss stores ($1,289,225) and in the gain on sale of common stock of Lerner Stores Corporation by McCrory ($113,164) are similarly being treated as special items.

**(13) Other matters:**

In January 1965 Rapid agreed to the proposed settlement of certain derivative actions by payment to McCrory of $800,000. Such payment, at the option of Rapid, may be made in cash or in McCrory common stock or in both. On October 27, 1965 judgment was entered in accordance with the terms of the settlement.

There are several claims pending against Rapid and subsidiaries together with other contingencies (including long-term leases on locations at which operations have been or will be discontinued). Total liability cannot be determined but management and counsel are of the opinion that the liabilities in the consolidated financial statements are adequate to cover the same.

At January 31, 1966 the minimum annual rentals upon property leased to Rapid and its subsidiaries under leases expiring after January 1969 amount to approximately $23,100,000 plus, in certain instances, real estate taxes, insurance, etc. Of total rental obligations, approximately $340,000 is related to two leases on locations at which operations have been discontinued. No specific provision has been made in the accompanying consolidated financial statements for future payments to be made on these two leases because in the opinion of management of Rapid such payments will be immaterial in amount.

A special meeting of shareholders of Rapid has been called to be held jointly with the annual meeting on May 25, 1966. The following are among the items subject to approval at such meeting:

a) Agreement of merger between Rapid and Hanover Equities Corporation on the basis of an exchange of one-third of a share of $.75 Cumulative Convertible Preferred Stock, par value $1 per share, of Rapid for each share of Hanover. The merger when consummated would require the issuance of approximately 610,000 shares of such preferred stock.

b) Exchange of 240,000 additional shares of the foregoing preferred stock by Rapid for $3,600,000 of a 5% subordinated note which is included in long-term debt in the accompanying consolidated balance sheet.

c) Application of capital surplus to eliminate the earned surplus (deficit) at January 31, 1966.

d) Authorization of two new classes of Preferred Stock:

i) $.75 Cumulative Convertible Preferred Stock, par value $1 per share, convertible share for share into common stock (to be available for the transactions set forth in (a) and (b) above).

ii) 5% Cumulative Preferred Stock, par value $100 per share, each share convertible into 10 shares of common stock. Under certain circumstances Rapid has agreed to sell at par 15,000 shares of this preferred stock to an investment banker, who may be required at Rapid's election to purchase at par 30,000 shares thereof.

e) Elimination of the presently authorized and unissued 5% Cumulative Preferred Stock, par value $100 per share.

## ACCOUNTANTS' OPINION

RAPID-AMERICAN CORPORATION:

We have examined the financial statements of Rapid-American Corporation and subsidiaries except Lerner Stores Corporation and its subsidiaries for the year ended January 31, 1966. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As to Lerner Stores Corporation and its subsidiaries, we were furnished with the report of other accountants on their examination of the financial statements of that company and its subsidiaries for the year.

In our opinion, based on our examination and the report of other accountants referred to above, the accompanying consolidated balance sheet and statements of consolidated income and shareholders' equity present fairly the financial position of Rapid-American Corporation and subsidiaries at January 31, 1966 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

HASKINS & SELLS
*Certified Public Accountants*

New York, N. Y.
April 14, 1966

| | |
|---|---|
| AUDITORS | HASKINS & SELLS, NEW YORK, N. Y. |
| GENERAL COUNSEL | WACHTEL & MICHAELSON, NEW YORK, N. Y. |
| TAX ADVISORS | HANIGSBERG, DELSON & BROSER, NEW YORK, N. Y. |
| TRANSFER AGENTS | CHEMICAL BANK NEW YORK TRUST COMPANY, NEW YORK, N. Y.<br>THE FIRST NATIONAL BANK OF JERSEY CITY, JERSEY CITY, N. J. |
| REGISTRAR | THE CHASE MANHATTAN BANK, NEW YORK, N. Y. |
| LISTINGS | AMERICAN STOCK EXCHANGE (Common Stock & Debentures)<br>CINCINNATI STOCK EXCHANGE (Common Stock) |

EXECUTIVE OFFICES 711 FIFTH AVENUE, NEW YORK, N. Y. 10022

# GLEN ALDEN CORPORATION

ANNUAL REPORT 1965

## BOARD OF DIRECTORS

ISIDORE A. BECKER
Financial Vice President and Treasurer of McCrory Corporation.

FRANK BURNSIDE
President of Fowler, Dick and Walker, Inc., Wilkes Barre, Pennsylvania, Department Store.

RALPH E. CASE
Chairman of the Board, Case and Company, Inc., Management Consultants, New York, New York.

PATRICK J. CLIFFORD*
President of The Security National Bank of Long Island, Huntington, New York.

MAURICE GOODMAN
Chairman of the Board of The Golden Cycle Corporation, Colorado Springs, Colorado.

LUTHER H. HODGES
Chairman of the Board of Financial Consultants International S.A.

WENTWORTH P. JOHNSON*
Former Senior Vice President and now Director of Fidelity-Philadelphia Trust Company, Philadelphia, Pennsylvania.

PAUL A. JOHNSTON*
President and Chief Executive Officer of the Corporation.

LEONARD C. LANE*
Vice Chairman of the Board of McCrory Corporation.

SAMUEL J. LEVY
President of Cellu-Craft Products Corp., New Hyde Park, New York.

AUSTIN LIST
Vice President of the Corporation.

HARRY MANDEL
President of RKO Theatres Division of the Corporation.

M. LESTER MENDELL*
Former Senior Vice President, Bankers Trust Company, and now Director of several corporations.

GILBERT H. PERKINS
Consultant to and formerly Vice Chairman of the Board of Chemical Bank New York Trust Company.

BERT R. PRALL
Chairman of the Board of The Chicago-Tokyo Bank, Chicago, Illinois.

MESHULAM RIKLIS*
Chairman of the Board and President of McCrory Corporation and Chairman of the Board of the Corporation.

HARRY H. WACHTEL
Partner in the law firm of Wachtel & Michaelson, New York, New York, and Vice President of McCrory Corporation.

*Member of Executive Committee.

## OFFICERS

MESHULAM RIKLIS
Chairman of the Board

PAUL A. JOHNSTON
President

AUSTIN LIST
Vice President

FRED M. LYON
Vice President

HARRY MANDEL
Vice President

JOHN G. JAEGER
Treasurer

WM. F. WHITMAN
Secretary and General Attorney

FRED E. SQUIRE
Controller

## ANNUAL MEETING

The Annual Meeting of Shareholders will be held on May 20, 1966 at 10:00 A. M. in the Manhattan-Skyline Room of the Park Sheraton Hotel, 56th Street and Seventh Avenue, New York, New York.

## COMPARATIVE HIGHLIGHTS

### PROFIT SUMMARY

| | 1965 | 1964 |
|---|---|---|
| Net sales and revenues | **$79,171,000** | $98,621,000 |
| Income before nonoperating items | **6,526,000** | 6,000,000 |
| Nonoperating items | **(3,213,000)** | 3,777,000 |
| Net Income | **$ 3,313,000** | $ 9,777,000 |
| Income before nonoperating items per share | **$1.36** | $1.25 |
| Net Income per share | **.69** | 2.04 |
| Dividends paid per share | **.70** | .70 |

### BALANCE SHEET SUMMARY

| | 1965 | 1964 |
|---|---|---|
| Current assets | **$53,470,000** | $51,965,000 |
| Current liabilities | **6,804,000** | 10,862,000 |
| Net Working Capital | **46,666,000** | 41,103,000 |
| Current Ratio | **7.9 to 1** | 4.8 to 1 |
| Property, plants, equipment and leaseholds (net) | **17,625,000** | 32,456,000 |
| Long-term debt | **11,328,000** | 12,731,000 |
| Book value of shares | **68,620,000** | 70,595,000 |
| Book value per share | **14.28** | 14.72 |

### GENERAL

| | 1965 | 1964 |
|---|---|---|
| Number of shares outstanding | **4,804,114** | 4,796,902 |
| Number of shareholders | **16,000** | 16,000 |

# TO OUR SHAREHOLDERS

Your corporation is pleased to report that its 1965 income before nonoperating items increased to $6,500,000 from the $6,000,000 reported in the prior year. Sales of the Company were $79,000,000 during 1965 as compared to $98,000,000 in 1964. Both the increase in income before nonoperating items and the decrease in sales reflect the disposal of unprofitable and marginal operations including the E. Hubschman & Sons leather division, which was sold during the latter part of 1964, and a number of theatres. A narrowing market for anthracite coal also contributed to the decrease in sales while our textile operations and the remaining theaters contributed to the improved operating earnings.

As reported in the financial statements, anthracite coal assets were sold as of January 1, 1966 to a group of Pennsylvania businessmen with substantial experience in the industry, who will continue to market anthracite under the 'blue coal', "Hudson", and "Sterling" trademarks. This ends Glen Alden's long history as the largest producer of deep-mined anthracite coal in the nation. We are grateful that, in keeping with our proud history in this field, we have found a responsible group of investors who will continue to operate these properties and maintain the benefits for the employees, dealers and customers of our former division.

Although the sale of the coal assets resulted in a book loss of approximately $3,600,000, your Company deemed it advisable to dispose of the property in this manner as the best method of realizing the values still existing in the industry. The effect of this sale combined with the other nonoperating transactions, including a $1,000,000 profit from the sale of certain theater properties, is to reduce our Net Income for the year to $3,300,000. It should be noted also that we are creating a reserve for possible future loss on certain other assets of the corporation, resulting in a direct charge of $2,000,000 to the earned surplus account. The recognition of the loss from the sale of the coal division and the creation of the reserve against possible future losses from other assets results in a conservative evaluation of your Company's total assets and is, we believe, an appropriate action to take at this time.

The RKO Theatres Division improved its operating results during 1965. The improvement came as a result of the continued disposal of loss or low-profit theaters and the securing of better pictures for the RKO outlets. In March of this year, we appointed Mr. Matthew Polon as President and General Manager of the theater division and installed an incentive program for local managers and made other operating changes. We look forward to continued improvement in the division's operations during 1966.

Our textile division, which is composed of Swift Manufacturing Company in Columbus, Georgia, and the Opp and Micolas Mills in Opp, Alabama, had the best year in its history. This is consistent with the excellent performance of the textile industry in general during 1965. We continued to make the necessary expenditures to keep our plants and machinery updated and efficient. Under the leadership of our new President at Swift Manufacturing Company, Mr. John A.

Boland, Jr., who joined Swift in December 1965, we expect to begin construction of a new and additional plant in the Columbus area. We also contemplate expanded facilities in Opp to meet the growing demand for the products of those mills. The textile division looks forward to another good year in 1966.

Efforts were continued during the year to channel your company's uncommitted assets into acquisitions which will increase our profitability and enhance the value of our equity. Our investments must be of sufficient size and scope to warrant the channelling of our resources of management and capital into new companies and industries and to justify our efforts to develop working relationships with the existing managements. It is also necessary that we have adequate financial resources to finance these acquisitions. This is being accomplished through the liquidation of Company assets which do not produce a satisfactory rate of return and by broadening our banking relations as a base for insuring strong financial backing for future acquisitions.

In August, 1965, we acquired, through an offer for tenders, 1,000,000 shares of the stock in McKesson & Robbins, Inc. It became apparent, however, that a smooth working relationship with that company would not be possible and we thereafter disposed of this interest at no gain or loss to Glen Alden.

Since the close of the year, we have acquired approximately 245,000 shares of the stock of The Philip Carey Manufacturing Company through an offer made in February, 1966, to Carey's stockholders at $40 per share. This investment represents a little more than 24% of the outstanding stock of Carey, a company which has a fine management and excellent products and is in an industry which is certain to enjoy continued profitable growth in our expanding economy.

During the past year Mr. Albert A. List resigned as Director, Chairman of the Board and chief executive officer of the Company to devote a larger portion of his time to his personal and philanthropic activities. We are deeply grateful to Mr. List for the devoted service and able leadership he has rendered to the Company.

In January, 1966, the Board of Directors of the Corporation was strengthened by the addition of three new members with broadly diversified business and financial interests. They are Mr. Patrick J. Clifford, President of The Security National Bank of Long Island, who will also serve as a member of the Executive Committee; Mr. Maurice Goodman, Chairman of the Board of the Golden Cycle Corporation; and Mr. Luther H. Hodges, former United States Secretary of Commerce and Governor of North Carolina and a director of several corporations. Mr. Hodges' business background includes service as a Vice President of Marshall Field & Company and General Manager of its textile manufacturing operations.

This report would be incomplete without expressing our sincere appreciation to the men and women of the Glen Alden Corporation whose devotion to the Corporation's interests helps keep it strong and in a position to move ahead into new and diversified fields. We would also like to express our grateful appreciation to our many customers and suppliers whose support and cooperation we greatly value.

M. Riklis

MESHULAM RIKLIS,
Chairman of the Board

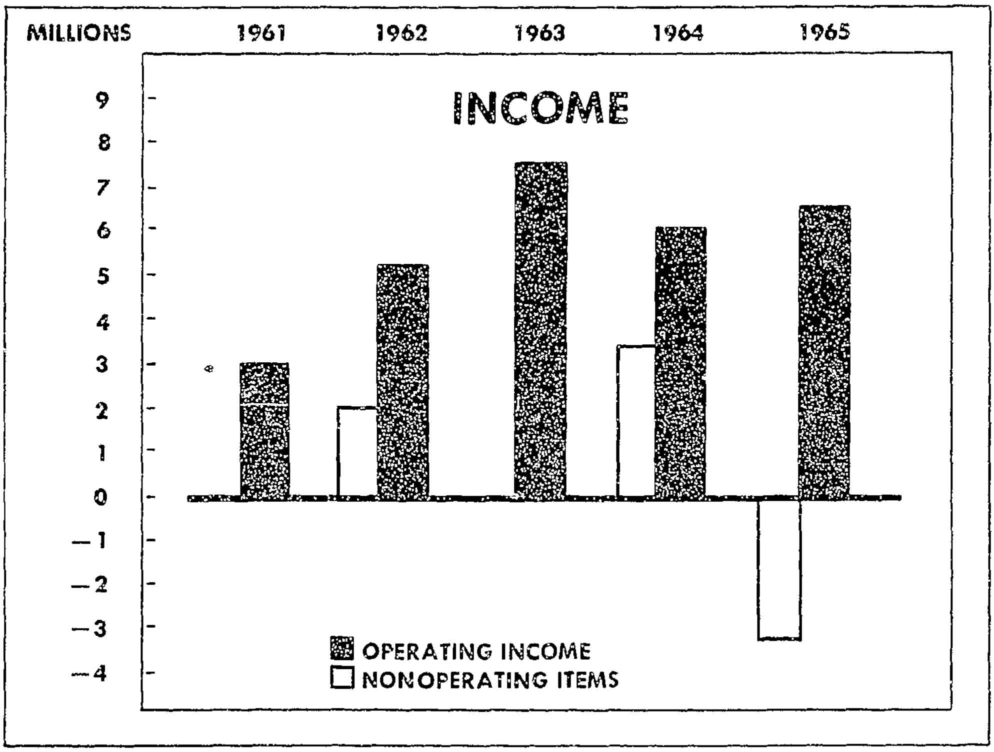
Paul A. Johnston

PAUL A. JOHNSTON,
President

March 15, 1966

## EARNINGS

Year 1965 income of $6,526,000, before nonoperating items, compared favorably with similar income in 1964 of $6,000,000. A deduction for nonoperating items in 1965 of $3,213,000 was principally from the sale of the Coal Division. In 1964 nonoperating items resulted in a net credit of $3,777,000, principally from a gain on the sale of the capital stock of The American Hardware Corporation.




## SALES & REVENUES

Sales and revenues of $79,170,000 in 1965 decreased from last year's total of $98,621,000. The decrease was due to the sale of the Hubschman Division in 1964 and the sales of theatre properties during 1964 and 1965 together with the attrition in the consumption of anthracite during these years.

## DIVIDENDS

Cash dividends of 70¢ per share paid in 1965 equaled the dividends paid in 1964.

An extra dividend of 20¢ a share was paid in January, 1966, as in January 1965, in addition to the regular quarterly dividend of 12½¢.

## STATEMENT OF INCREASE IN CONSOLIDATED WORKING CAPITAL

| | Year ended December 31, 1965 | 1964 |
|---|---|---|
| Increase in total current assets | **$ 1,504,795** | $ 2,926,213 |
| Decrease in total current liabilities | **4,057,550** | 8,507,058 |
| INCREASE IN CONSOLIDATED WORKING CAPITAL | **$ 5,562,345** | $11,433,271 |
| Working Capital Provided By: | | |
| Net income | **$ 3,313,272** | $ 9,777,144 |
| Items charged to income which did not affect elements of working capital: | | |
| Depreciation, depletion and amortization of fixed and intangible assets, debt discount and expense, etc. | **2,525,866** | 2,792,092 |
| Loss on sale of mortgage notes | **478,018** | 1,165,839 |
| Provision for losses on miscellaneous assets and for possible federal income tax assessments | **127,130** | 2,464,498 |
| Realization of long-term mortgage and other notes and accounts receivable, etc. | **2,805,186** | 8,733,339 |
| Noncurrent portion of deferred production payment | — | 2,863,000 |
| Disposals of property, plant and equipment, less portion of consideration represented by long-term mortgage notes and assumption of long-term liabilities | **4,011,791** | 1,225,280 |
| Other—net | **69,851** | ( 197,623) |
| | **13,331,114** | 28,823,569 |
| Working Capital Applied To: | | |
| Purchase of Common Shares for treasury | — | 10,015,929 |
| Cash dividends declared | **3,364,032** | 3,357,393 |
| Reduction of long-term debt | **1,402,711** | 2,196,357 |
| Additions to property, plant and equipment | **2,310,171** | 1,820,619 |
| Reduction of other liabilities | **691,855** | — |
| | **7,768,769** | 17,390,298 |
| INCREASE IN CONSOLIDATED WORKING CAPITAL | **$ 5,562,345** | $11,433,271 |

## CONSOLIDATED BALANCE SHEE—NO

### ASSETS

| | December 31, 1965 | December 31, 1964 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash, including bank certificates of deposit | **$42,770,415** | $ 37,821,429 |
| Trade accounts receivable, less allowances (1965—$142,523; 1964—$247,272) | **2,744,592** | 5,527,914 |
| Mortgage and other notes and accounts receivable, current portion | **2,358,944** | 1,776,497 |
| Inventories—Note C | **5,094,333** | 6,136,426 |
| Prepaid expenses | **501,345** | 702,568 |
| TOTAL CURRENT ASSETS | **53,469,629** | 51,964,834 |
| MORTGAGE NOTES AND OTHER RECEIVABLE—Portion due after one year, less unearned discount applicable to non-interest bearing obligations | **10,871,106** | 5,654,761 |
| OTHER ASSETS | | |
| Investment in capital stock (at cost, less in 1965 $2,000,000 reserve appropriated from earned surplus for revaluation of investment to approximate market) and notes (portion due after one year) of Briggs Manufacturing Company | **3,968,181** | 6,186,836 |
| Sundry investments, notes, accounts and deposits, less allowances | **1,181,989** | 1,980,691 |
| | **5,150,170** | 8,167,527 |
| INTANGIBLES—less amortization—Note D | **2,283,853** | 2,580,094 |
| PROPERTY, PLANTS, EQUIPMENT AND LEASEHOLDS—Notes E and F | **52,821,719** | 128,494,196 |
| Less allowances for depletion, depreciation and amortization | **35,196,550** | 96,037,708 |
| | **17,625,169** | 32,456,488 |
| DEFERRED CHARGES | **337,438** | 596,335 |
| | **$89,737,365** | $101,420,039 |

See notes to financial statements.

## LIABILITIES AND SHAREHOLDERS' EQUITY

| | December 31, 1965 | December 31, 1964 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Trade accounts payable | $ 1,383,265 | $ 2,163,826 |
| Dividends payable—paid in January | 1,561,337 | 1,558,993 |
| Pay rolls and related items | 656,561 | 1,494,627 |
| State, local and other taxes | 1,501,613 | 1,739,615 |
| Other liabilities | 951,084 | 1,140,848 |
| Current portion of long-term debt | 750,539 | 612,040 |
| Current portion of deferred coal production payment | — | 2,152,000 |
| TOTAL CURRENT LIABILITIES | 6,804,399 | 10,861,949 |
| LONG-TERM DEBT—Note F | | |
| Parent company | 8,250,000 | 8,875,000 |
| Subsidiaries | 3,078,232 | 3,855,943 |
| | 11,328,232 | 12,730,943 |
| OTHER LIABILITIES | | |
| Deferred coal production payment | — | 2,863,000 |
| Compensation claims and sundry | 421,946 | 611,539 |
| | 421,946 | 3,474,539 |
| RESERVES FOR TAXES AND CONTINGENCIES—Notes G and H | 2,455,150 | 3,670,032 |
| MINORITY STOCKHOLDERS' INTEREST IN SUBSIDIARIES | 107,761 | 87,111 |
| SHAREHOLDERS' EQUITY | | |
| Common Shares—par value $1.00 per share—Note I: Authorized 8,500,000 shares; issued 1965—6,124,986 shares; 1964—6,679,702 shares, including shares held in treasury | 6,124,986 | 6,679,702 |
| Capital surplus—Note J | 62,058,725 | 67,244,771 |
| Earned surplus—since January 1, 1959 | 16,798,814 | 18,849,574 |
| | 84,982,525 | 92,774,047 |
| Less Common Shares held in treasury (1965—1,320,872; 1964—1,882,800) at cost | 16,362,648 | 22,178,582 |
| | 68,619,877 | 70,595,465 |
| RETIREMENT PLAN, LONG-TERM LEASES AND GUARANTIES—Notes K, L and M | | |
| | $89,737,365 | $101,420,039 |

## *STATEMENT OF CONSOLIDATED INCOME AND EARNED SURPLUS*—Note B

| | Year ended December 31, 1965 | 1964 |
|---|---|---|
| Net sales of products, theatre admissions, rentals and other operating revenues | **$79,170,643** | $98,620,797 |
| Costs and expenses (including depreciation, depletion, and amortization: 1965—**$2,110,308**; 1964—$2,469,770): | | |
| Cost of products sold, theatre, building and other operating expenses | **67,448,398** | 86,656,015 |
| Advertising, selling, general and administrative expenses | **6,171,556** | 7,131,143 |
| | **73,619,954** | 93,787,158 |
| | **5,550,689** | 4,833,639 |
| Other income: | | |
| Interest and discounts earned | **1,635,112** | 1,581,613 |
| Dividends | **441,729** | 15,293 |
| Miscellaneous | **629,459** | 690,767 |
| | **2,706,300** | 2,287,673 |
| | **8,256,989** | 7,121,312 |
| Other deductions: | | |
| Interest, and amortization of debt discount and expense (1965—**$59,089**; 1964—$60,734) | **967,785** | 738,866 |
| Amortization of intangible assets | **224,779** | 229,225 |
| Miscellaneous, including minority stockholders' interest (1965—**$30,239**; 1964—$17,235) | **537,900** | 153,478 |
| | **1,730,464** | 1,121,569 |
| INCOME BEFORE NONOPERATING ITEMS | **6,526,525** | 5,999,743 |
| Nonoperating items: | | |
| Profit (loss) on sale of: | | |
| Theatre properties | **1,029,730** | 2,057,652 |
| Coal properties—Note B | **( 3,637,835)** | 1,457,765 |
| Mortgage notes | **( 478,018)** | ( 1,165,839) |
| Capital stock of The American Hardware Corporation | — | 5,451,416 |
| Operating assets of the Hubschman Division | — | ( 1,559,095) |
| Provisions for losses on miscellaneous assets and for possible federal income tax assessments | **( 127,130)** | ( 2,464,498) |
| | **( 3,213,253)** | 3,777,401 |
| NET INCOME—Note G | **3,313,272** | 9,777,144 |
| Earned surplus—beginning of year | **18,849,574** | 12,429,823 |
| | **22,162,846** | 22,206,967 |
| Deduct: | | |
| Appropriation for revaluation of investment in Briggs Manufacturing Company to approximate market | **2,000,000** | — |
| Cash dividends declared ($.70 per share) | **3,364,032** | 3,357,393 |
| EARNED SURPLUS—end of year | **$16,798,814** | $18,849,574 |

See notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS

## Note A—Principles of Consolidation:

The accompanying financial statements include the accounts of the Corporation and all of its subsidiary companies and give effect to the elimination of all significant intercompany accounts and transactions. The statement of consolidated income and earned surplus includes the operations of the Hubschman Division to November 20, 1964, the date its operating assets were sold, and the operations of the coal business to December 31, 1965 (see Note B).

## Note B—Sale of Coal Properties:

Effective January 1, 1966, the Corporation sold its assets and business related to producing and selling anthracite coal for approximately $12,500,000, represented by cash of $500,000, a $5,775,000 mortgage note receivable, a $100,000 other note receivable and the assumption of certain liabilities. The consolidated balance sheet reflects the sale as of December 31, 1965. Net sales and operating revenues related to the coal properties amounted to approximately $30,736,000 in 1965 and $36,873,000 in 1964, compared to $42,810,000 in 1963; income before other income, other deductions and nonoperating items, amounted to $2,042,000 in 1965 and $2,733,000 in 1964, compared to $3,654,000 in 1963.

## Note C—Inventories:

Inventories, stated at the lower of cost or market, are summarized as follows:

| | Last-in First-out Cost Method | First-in, First-out or Average Cost Method | Total |
|---|---|---|---|
| 1965: | | | |
| Finished goods | $1,510,411 | $ 794,165 | $2,304,576 |
| Work in process | 883,705 | 343,289 | 1,226,994 |
| Materials and supplies | 1,022,199 | 540,564 | 1,562,763 |
| | $3,416,315 | $1,678,018 | $5,094,333 |
| 1964: | | | |
| Finished goods | $1,076,989 | $1,151,836 | $2,228,825 |
| Work in process | 863,508 | 706,347 | 1,569,855 |
| Materials and supplies | 994,555 | 1,343,191 | 2,337,746 |
| | $2,935,052 | $3,201,374 | $6,136,426 |

## Note D—Intangibles:

The amount carried as intangibles at December 31, 1965, which is being amortized at the rate of 5% per year, is attributable to the excess of the value assigned to the common shares of a predecessor issued in 1956 in exchange for the assets of the Cleveland Arcade Company, over the amount assigned to the tangible assets acquired. The principal tangible asset so acquired was a majority interest in the capital stock of Gera Corporation.

## Note E—Property, Plants, Equipment and Leaseholds:

Land, buildings, equipment and leaseholds are stated on the basis of cost in cash or assigned values of securities issued therefor, after certain write-downs with respect to properties of the parent company in 1944 and except for certain properties of the RKO Theatres Division which are stated on the basis of revaluations in 1928, 1932 and 1937.

## Note E—Property, Plants, Equipment and Leaseholds (Continued):

Property, plants, equipment and leaseholds, and their related allowances for depletion, depreciation and amortization, are summarized as follows:

| | 1965 | | 1964 | |
|---|---|---|---|---|
| | Assets | Allowances | Assets | Allowances |
| Coal and surface lands | | | $ 52,555,913 | $43,794,218 |
| Mine buildings and equipment | | | 15,894,375 | 11,783,948 |
| Other land (including perpetual leaseholds) | $ 9,113,170 | | 10,535,801 | |
| Other buildings and building equipment | 17,649,312 | $14,668,194 | 20,496,488 | 16,963,700 |
| Other machinery, fixtures and equipment | 21,258,789 | 14,516,095 | 22,332,886 | 15,071,705 |
| Leasehold improvements and equipment | 4,222,363 | 3,899,178 | 6,000,853 | 5,571,331 |
| Leaseholds | 24,352 | 23,316 | 141,110 | 69,767 |
| Construction in progress | 553,733 | | 536,770 | |
| Excess of equity in net assets of acquired companies over amounts paid for their capital stocks, less amortization | | 2,089,767 | | 2,783,039 |
| | $52,821,719 | $35,196,550 | $128,494,196 | $96,037,708 |

## Note F—Long-Term Debt:

| | December 31, | |
|---|---|---|
| | 1965 | 1964 |
| Parent company: | | |
| 4⅞% Mortgage and Collateral Trust Sinking Fund Notes on certain theatre properties; sinking fund payments of $625,000 are due each January 1, through 1978, balance due March 1, 1979 (payment due January 1, 1966 was paid in December 1965) | $ 8,250,000 | $ 8,875,000 |
| Subsidiaries: | | |
| G. A. Enterprises, Inc.: | | |
| 5% Registered First Mortgage Bonds due June 15, 1967; sinking fund payments are based on earnings | $ 266,800 | $ 311,800 |
| Gera Corporation: | | |
| 6% Subordinated Sinking Fund Debentures (including Series A Debentures authorized in 1957) due 1970: | | |
| On each June 30 through June 30, 1969, sinking fund payments aggregating $714,858 are required to be made. At December 31, 1965, Gera held $12,319 of the Debentures for application against sinking fund requirements | 3,561,971 | 4,156,183 |
| | 3,828,771 | 4,467,983 |
| Less amount classified as current liability | 750,539 | 612,040 |
| | 3,078,232 | 3,855,943 |
| | $11,328,232 | $12,730,943 |

## Note G—Federal Income Taxes:

A consolidated federal income tax return will be filed showing no federal income taxes due in respect of 1965 income because of loss carryovers from prior years and differences between book and tax basis of accounts for purposes of determining income. On the basis of such return and of prior years' consolidated federal income tax returns as filed, there will be net operating loss carryovers expiring December 31, 1966.

## Note G—Federal Income Taxes (Continued):

Certain adjustments to the consolidated taxable income proposed by the Internal Revenue Service for years prior to 1962, not resulting in tax liability for those years, but which affect loss carryovers, are being contested. The consolidated returns for 1962 through 1964 have not been examined.

The consolidated federal income tax returns of List Industries Corporation (which was merged into Glen Alden Corporation April 21, 1959) and subsidiaries then affiliated with it, for 1958 and the period ended April 21, 1959, are being currently examined by the Internal Revenue Service.

Tax counsel are of the opinion that no federal income taxes are payable through December 31, 1965, except as provided in the accompanying financial statements.

## Note H—Reserves for Taxes and Contingencies:

Certain suits and proceedings for damages, injunctive relief, or both, were pending against the Corporation or its subsidiaries, in which allegations are made as to violation of antitrust laws, unlawful trespass, breach of contract and of coal lease agreements and other matters. The reserves have been provided for cost of antitrust suits, possible assessments of federal income taxes and other contingencies, the amounts of which are not presently determinable.

## Note I—Stock Option Plans:

In 1965 the Corporation adopted a new Qualified Stock Option Plan under which 250,000 Common Shares were reserved for the granting of options to officers, other executives and key employees to purchase Common Shares at not less than fair market value at the time an option is granted. Options under the Plan become exercisable ratably over a period of not less than approximately three years and expire not more than five years after the date of granting or sooner in the event of death or other termination of employment.

The following is information with respect to transactions under stock options plans during 1965.*

| | Range of Option Prices Per Share | | | |
|---|---|---|---|---|
| | $8.49 to $10.57 | $12.13 to $13.00 | $13.60 to $14.49 | Total Shares |
| Shares as to which: | | | | |
| Options were outstanding at January 1, 1965 ... | 36,334 | 10,450 | 7,775 | 54,559 |
| Options were exercised....... ................ | 7,217 | | | 7,217 |
| Options were granted... ..................... | | 16,000 | 111,000 | 127,000 |
| Options expired.... . .................... .. . | 3,150 | 6,950 | 925 | 11,025 |
| Options were outstanding at December 31, 1965.. | 25,967 | 19,500 | 117,850 | 163,317 |

* Including transactions under the 1962 Stock Option Plan which was terminated March 16, 1965, and a former stock option plan which expired in 1963, which plans had options for 30,967 shares and 5,350 shares, respectively, outstanding at December 31, 1965.

Of the 250,000 shares initially reserved for options under the 1965 Plan there were 123,000 shares available as of December 31, 1965 for the granting of additional options

## Note J—Capital Surplus:

Capital surplus was charged during 1965 in the amounts of a) $5,173,269, representing the excess of cost over the par value of 554,716 shares of treasury stock retired during the year, which had been acquired prior to 1959, and b) $12,777, representing the excess of cost over proceeds received for 7,217 shares of treasury stock issued upon exercise of stock options.

## Note K—Retirement Plan:

The Corporation maintains a pension and retirement plan for the benefit of eligible employees. The plan, which is fully funded, has an estimated annual normal cost of approximately $200,000 No charges were made to income for 1965 since earnings of the plan exceeded the normal cost

### Note L—Long-Term Leases:

At December 31, 1965, the Corporation and its subsidiaries were obligated under twenty-three leases (excluding intercompany leases) with terms extending beyond 1968 which provide for payment by the companies of aggregate minimum annual rentals, exclusive of real estate taxes and other expenses, of approximately $1,450,000. Eighteen of these leases, with aggregate annual rentals of $1,345,000 expire within three to fourteen years, and five leases, with aggregate annual rentals of $105,000, expire between 1981 and 2023.

### Note M—Guaranties:

As of December 31, 1965, the Corporation was guarantor:

a) as to principal and interest of notes payable by unrelated parties in the aggregate principal amount of $5,836,158. Collateral with an aggregate quoted market value greater than such principal amount has been pledged as security to the notes,

b) as to principal, interest, premium (if any) on, and the performance of all of the covenants and obligations contained in an indenture relating to $1,920,000 of 5¾% Convertible Subordinated Debentures due December 1, 1969, issued by B. S. F. Company. In order to indemnify the Corporation, B. S. F. Company has deposited with a bank securities with an aggregate quoted market value in excess of the principal and premium on such Debentures,

c) in the amount of approximately $7,000,000 as to mortgage notes (having varying maturities to 1984) previously held by the Corporation or subsidiaries,

d) as to trade accounts receivable of approximately $2,150,000 and payment of a deferred production payment of $3,480,000, relating to the Corporation's coal business which was sold effective January 1, 1966 (see Note B), and

e) as to payment of notes in the amount of $255,225 held by the Glen Alden Employees Retirement Trust, payable or guaranteed by Briggs Manufacturing Company.

### Note N—Event Subsequent to December 31, 1965:

In February 1966, the Corporation and a subsidiary acquired 243,248 common shares of The Philip Carey Manufacturing Company for approximately $9,900,000 cash.

## ACCOUNTANTS' REPORT

To the Board of Directors and Shareholders of
Glen Alden Corporation

We have examined the consolidated balance sheet of Glen Alden Corporation and subsidiaries as of December 31, 1965, and the related statements of consolidated income and earned surplus and increase in consolidated working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of income and earned surplus present fairly the consolidated financial position of Glen Alden Corporation and subsidiaries at December 31, 1965, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. It is also our opinion that the accompanying statement of increase in consolidated working capital presents fairly the information therein shown.

Ernst & Ernst

New York, N. Y.
March 4, 1966

# GLEN ALDEN CORPORATION

## 1740 BROADWAY, NEW YORK, NEW YORK 10019

### TRANSFER AGENTS

CHEMICAL BANK NEW YORK TRUST COMPANY, 20 Pine Street, New York, New York 10015
FIDELITY-PHILADELPHIA TRUST COMPANY, 135 South Broad Street, Philadelphia, Pennsylvania 19109

### REGISTRARS

MANUFACTURERS HANOVER TRUST COMPANY, 40 Wall Street, New York, New York 10015
THE PHILADELPHIA NATIONAL BANK, Broad & Chestnut Streets, Philadelphia, Pennsylvania 19101

### GENERAL COUNSEL

STRASSER, SPIEGELBERG, FRIED & FRANK, 120 Broadway, New York, New York 10005

## OFFICES AND PLANTS

SWIFT MANUFACTURING COMPANY
Main Office and Plant:
Columbus, Georgia 30303

Sales Offices:

1430 Broadway, New York, New York 10018
Merchandise Mart, Chicago, Illinois 60654
849 South Broadway, Los Angeles, California 90052
971 Adair Avenue, N.E., Atlanta, Georgia 30301

OPP COTTON MILLS
THE MICOLAS COTTON MILLS

Main Office and Plants:
Opp, Alabama 36467

Sales Office:

1430 Broadway, New York, New York 10018

RKO THEATRES DIVISION

Main Office:
1740 Broadway, New York, New York 10019

GERA CORPORATION

Executive Offices:
1740 Broadway, New York, New York 10019